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THE DOCTRINE OF THE DISTRIBUTION OF MAINTENANCE AND SOME OF ITS APPLICATIONS.

THE term "distribution" is used at present, with reference to economic phenomena, in two senses. There is, first, the ordinary every-day sense of the business men, meaning the parcelling out and physical dissemination of goods which have been gathered together by dealers in large masses. Thus there is the collection of wheat at the primary buying markets, and then its distribution to all the places where wheat is turned into flour. From these centres in turn flour is distributed wholesale to the places where flour finds a market and where there is the final distribution by the retail trade. The notion is concrete and geographical. Economists follow this usage whenever, for example, they speak of certain cities as important distributive points and of a certain form of co-operation as distributive co-operation.

But, as a rule, economists use the term in a second, technical sense, meaning the rules of the partition of wealth in respect to ownership between all the economic agents which have had a part in its production. It is not the specific dividing and sharing of any particular joint product with which a treatise on "distribution" has to do, nor does it aim to show statistically what are the total shares of general wealth received by different economic classes: it discusses the laws and principles determining the conditions of the sharing of wealth in general without stating the quantitative results. The notion is abstract and legal-psychological.

This is the present-day situation. From the middle of

the eighteenth to the middle of the nineteenth century, however, by a long succession of writers, the term "distribution" was used in yet a third sense, midway between the two set forth above. It meant the social diffusion and the obvious ways and means of individual acquisition, not of wealth in general, but of one particular form of wealth; namely, the surplus produce of the soil, the disposable subsistence or maintenance of a country. Some of the early writers of this period held that this particular form of wealth, which maintained society, alone constituted wealth, and asserted that all laborers except agricultural laborers were therefore unproductive. But, even with those who did not go so far, the creation and distribution of maintenance occupied the centre of their system of speculation. They used the concept as an *organon* in handling the economic problems with which they were concerned.¹

¹ In addition to the Physiocrats and their forerunners (chief of whom were Hume and Cantillon), those who have made use of or contributed to this doctrine, in whole or in part, are the following:—

Sir James Steuart, *Inquiry into the Principles of Political Economy* (1767), Book I., chaps. v.-ix., xi., xiv., and xix.-xxi.

Benjamin Franklin, *Works*, vol. ii., an essay entitled "On the Laboring Poor" (first published in 1768), and the article called "Positions to be examined concerning National Wealth," dated 1769. Franklin is said to have contributed to the physiocratic journal, *Éphémérides du Citoyen*.

[Necker] *On the Legislation and the Commerce of Corn*, London, 1776. Original French edition, 1775. This work was probably the most important scientific counter-blast in France against the free-trade propaganda of the Physiocrats.

Adam Smith, *Wealth of Nations*, Book I. chap. xi. (Bohn's edition), pp. 171-172; Book II. chap. iii. p. 339; Book II. chap. v. pp. 369; Book III. chap. i. pp. 383-388; Book III. chap. iv. pp. 417-421; and Book IV. chap. ix. (vol. ii.) p. 205. Ganilh, a follower of Smith, said of him, "He constantly kept very close to the system of the French economists." For Ganilh's further criticism of Adam Smith on his physiocratic side see *Inquiry into the Various Systems of Political Economy* (New York, edition 1812), pp. 87, 111, 127-128, 169, 230-231, and 240-241.

William Paley, *Principles of Moral and Political Philosophy* (1785), Book VI. chap. xi., Pt. III., beginning, "Besides the production of provision there remains to be considered the distribution."

The anonymous author of *The Essential Principles of the Wealth of Nations Illustrated*, London, 1797. An excellent description of physiocracy.

Dugald Stewart, *Collected Works*, vol. viii., "Lectures on Political Economy" delivered at the University of Edinburgh from 1801 to 1810.

William Spence, *Britain Independent of Commerce* (1807); *Agriculture the Source of the Wealth of Britain* (1808).

The essentials of this early theory of distribution, making complete abstraction of money and otherwise giving a somewhat developed interpretation, are briefly as follows. Agricultural land, being held in large estates and farmed efficiently on the basis of modern economic motives, yields a produce in excess of that consumed by those directly or indirectly engaged in its cultivation; that is, by the agricultural laborers themselves and by their "secondaries" (Chalmers), who produce for them articles of necessary consumption other than food, and who contribute otherwise (in the capacity of blacksmith and the like) to the prosecution of agriculture. This surplus produce or net gain of agriculture comes into the possession of the proprietors of land, who consume part of it (they and their families) and "dispose" of the remainder. So far as the landlords are taxed by the state, a part of their annual stock of surplus produce passes to the government as their deputy, which thus becomes a disposer on its own account.

Disposing or distributing consists in handing over surplus produce or maintenance to some one in return for some "equivalent," which may be either a material product or a personal service. Those who thus receive maintenance at the hands of the landlords or their chief deputy, the state, are in the position of dependants, and are compelled to render that sort of "equivalent" which is de-

The anonymous author of *Sketches on Political Economy, with an Exposition of the Leading Tenets of the "Economists,"* 1809.

Thomas Chalmers, *Inquiry into the Extent and Stability of National Resources* (1808); *Political Economy* (1832). Chalmers is by far the best exponent of the doctrine of maintenance.

Richard Jones, *Literary Remains*, consisting of lectures and tracts on Political Economy, written during the years 1835-55. See in particular pp. 79, 118-121, 134-139, 420-421, 440-442, 447, 453, and 461.

John Stuart Mill seems to have followed Jones in the "Preliminary Remarks" to his *Principles*. See Appleton's edition, pp. 30-33 and 37-40.

William Lucas Sargant, *The Science of Social Opulence*, London, 1856. Sargant describes in a theoretical way the development of an isolated frontier community supposed to be without foreign commerce or the use of money, which last disguises "the real nature of economical operations."

manded. They may therefore be changed from one occupation to another, and are on that account called collectively the "disposable class." The agricultural class and its secondaries are not "disposable": they are fixed in their occupation, perpetually renewing the stream of surplus produce for the rest of society.¹

Each member of the "disposable class" consumes (he and his family) a certain amount of maintenance, which may be called an economic ration, and hands on the remainder, if there be a remainder, thus becoming a sub-disposer himself. He hands on what he receives in excess of his ration, because, on the one hand, he cannot consume any more; and, on the other hand, if he is to get any of the comforts and luxuries of life, he can get them in no other way. So far as a member of this class lays out an accumulated store of maintenance in a business way, hiring labor and buying materials, and expecting to replenish that store from the sale of the product, he is not a disposer, but only acting as the directed agent of disposers, on whose maintenance-paying power—"returning power" (Chalmers)—the business depends. Only when a capitalist employer expends his profits, parts with maintenance permanently, for his own personal gratification, is he himself a disposer,—a responsible director of a part of the stream of maintenance of society. The repeated deductions of rations from the stream of maintenance, as it is disposed and redispensed, ultimately ex-

¹ I follow Chalmers at this point in respect to terminology. Turgot (*Réflexions*, § xv.) called the class of artisans and servants the "stipendiary class," and the class of proprietors the "disposable class," having in view political rather than economic considerations. The landlords were men of leisure, and the sovereign could dispose of them to perform one or another important service for the state. The regular physiocratic term for what Chalmers calls the disposable class was the *classe stérile*. Sir James Steuart called the landlords, together with those dependent upon their expenditure, the class of "free hands" (vol. i. p. 48).

As already intimated above, I depart from the usage of all the early writers in that I deal with the distribution of real maintenance, as the spirit of their system requires, instead of with the laying out of surplus produce turned into a money "revenue."

haust it, just as the water of an irrigating system—any definite supply of it—is used up here and there until it all disappears. But at any time while the stream still flows, no matter how subdivided, it may be reunited into a larger stream again, as when a leading manufacturer or merchant collects as his profits small amounts of maintenance from many sub-sources, becoming thereby a derivative disposer rivalling or surpassing the landlords themselves.¹

Suppose, to illustrate the main idea before us, that in a given community we start with 5,000,000 units of maintenance, or economic rations, in the hands of 100,000 proprietors of land. Then 100,000 rations are deducted, and 4,900,000 handed on at the first exchange or distribution. Suppose the receivers are 400,000 persons, some rich some poor. Then, after 400,000 rations are deducted, at the second distribution 4,500,000 rations are handed on, the handing on being done mostly by the richer receivers. This process, continued, at length distributes the whole of the maintenance of the community (that is, the whole of the surplus subsistence above what the landlords themselves consume) to the members of the disposable class, who constantly send in the opposite direction, from one to another and to the landlord class, a stream of "equivalents" in payment.

The significance of this counter-flow of equivalents has been variously estimated. The Physiocrats regarded it as only useful directly and in itself. The utilities em-

¹ Quesnay and the other Physiocrats recognized that rich representatives of the "money power" of their day might have great influence through their expenditure upon other members of the disposable class. But they and others like them endeavored to keep this troublesome consideration out of sight and to make their three economic classes correspond with the three social-political classes of an earlier time,—villeins, landed gentry, and city handicraftsmen,—the third economic estate being conceived of as strictly dependent upon the proprietors of land for whom and for whom only they produced luxuries of one sort or another.

To the three regular physiocratic classes Chalmers added a fourth class, the "secondaries," which was split up and attached to each of the other

bodied in material forms afforded by the skill of the artisan, the services of the professional man, the creations of the artist, enriched our common civilization,—we were all better off for them,—but they did not directly or indirectly add to maintenance. They afforded no basis, therefore, for economic advance, which was conceived of as growth of population and increased ability to support armies and other services of the state. Some writers, notably Chalmers, held that historically the novel and more abundant equivalents furnished by the new commerce and the new manufactures following the voyages of discovery had been of the greatest importance in rousing mediæval Europe on its agricultural side, but that this movement had long since spent its force. Others, however, grasped the idea of a continuing, progress-making, reciprocal influence upon each other of the two leading forms of industry. Manufactures, or “trade,” would require the support of agriculture; but it would more than repay its debt, and thereby would cause agriculture to extend itself and do its utmost. “It appears,” said Paley, “that the business of one-half of mankind is to set the other half at work; that is, to provide articles which by tempting the desires may stimulate the industry, and call forth the activity of those upon the exertion of whose industry, and the application of whose faculties, the production of human provision depends. . . . It appears, also, that it signifies nothing, as to the main purposes of trade, how superfluous the articles which it furnishes are. . . . A watch may be a very unnecessary appendage to the dress of a peasant; yet, if the peasant will till the ground in order to obtain a watch, the true design of trade is an-

classes and engaged in making necessary articles in contradistinction to luxuries. Except in respect to the agricultural class it has seemed to me convenient to disregard this advance upon the physiocratic analysis. The members of the disposable class I regard as making indiscriminately luxuries and necessities for the landlord class and for other members of their own class.

swered, and the watch-maker, while he polishes the case or files the wheels of his machine, is contributing to the production of corn as effectually, though not so directly, as if he handled the spade or held the plough.”¹ This is a great improvement on the misty idea of Quesnay, that the way to encourage agriculture is for the great proprietors to spend more of their “*revenu*” on “*luxe de subsistance*” and less on “*luxe de décoration*.” Let the agriculturist get and enjoy some “*luxe de décoration*” himself, says Paley, and the trick will be done.

Finally, the question arises, either in respect to the forward-flowing stream of maintenance or in respect to the counter-flow of equivalents, upon what principles do the members of the disposable class divide it, according to what laws do the recipients individually get a larger or a smaller share? The exponents of the doctrine under consideration make no answer beyond the hypothesis that the wages of labor are habitually at a subsistence level, and that there is a certain customary rate of profit in every society. In other words, they are not concerned with “distribution” in its modern sense.

The first application of the doctrine of maintenance (which, though limited in its scope, still has its uses) is to the question of land tenure, or, more specifically, the question of large *vs.* small farms. This question has usually been considered from the technical point of view; and this, indeed, is doubtless its most important aspect. But Chalmers and some others have insisted that there is another aspect of the matter which must not be overlooked. Even if the zeal and diligence of a peasant proprietor should fully compensate for deficiency in the use of machinery and the like, even if *petite culture* were just as efficient as *grande culture*, they urge that nevertheless

¹ *Works*, American edition (1811), vol. iii. pp. 485-486.

Compare with this passage that in Necker's work, *The Legislation and Commerce of Corn*, pp. 48-51, where precisely the same position is taken.

a system of peasant proprietor holdings is undesirable. They point out that under such a system, if carried far enough, the whole produce of the land will be eaten *in situ* by a swarm of little people and their dependants, leading narrow existences upon the soil. Rent, surplus produce, will be absorbed: it will be "elided."¹ The richer soils under these circumstances will no more yield a disposable surplus produce than the poorer soils: they will simply support a denser agricultural population.

It should be admitted, I think, that whether the same or a greater total population is supported, society would nevertheless suffer a distinct loss from the establishment of the peasant proprietor régime. When the surplus disposable produce or maintenance is cut off, the disposable population is cut off with it,—all except such persons as are supported by taxes wrung from the peasantry. And this means an absence of art, of unpaid public service, of development of the learned professions, of the undertakings of great men of affairs,—in short, an absence of nearly all those things which differentiate and ennoble a society. In other words, a nation which goes in for a "five-acres-and-a-cow" system of land tenure will have, so far as it is self-supporting, a "five-acres-and-a-cow" civilization.

Over a great part of the world the agency which secures and extends that element of good rural economy which consists of a certain management maximizing the surplus yield of the soil (in contradistinction to better technical processes increasing the total yield, though the two are connected) is the landlord-and-tenant system. The self-interest of the landlord "purges the land of idle mouths" (Steuart), for that means an augmentation of his rents. Thus do the apparent drones perform a service in the human hive.

¹ This is the expression of Loria, who, contrary to Chalmers and others of his way of thinking, regards rent and all its social-economical effects as an evil to be got rid of by a system of small estates. See *La rendità fondiaria e la sua elisione naturale* (1880).

But the landlord system will work no better than the peasant-proprietor system unless the landlord intelligently understands and zealously pursues his interest. Whenever, from mistaken benevolence or other non-economical motives, he allows the people to multiply on petty holdings, a sad state of rural destitution and general social feebleness may at length arise, such as was formerly the case with Ireland. As one writer put it, speaking of the situation in 1825, "By a long course of mismanagement, arising from the non-residence, indolence, or inattention of their proprietors, Irish estates have become encumbered with a dense population which the whole produce of the land, as it is now cultivated, is utterly inadequate to support."¹ . . . The same writer tells of the way out of a similar condition of affairs in the eighteenth century in Scotland. This passage, describing a part of the great economic revolution following the Act of Union, will bear quoting at length:—

In almost every district [of the Highlands] the land had become excessively subdivided among a numerous race of petty and indigent occupiers, until, in many instances, it had become impracticable for the owner to obtain any rent for his land, its whole produce being barely sufficient to afford the most scanty subsistence for the wretched cottiers by whom it was cultivated. Gradually and almost imperceptibly the landlords disencumbered their estates of their excessive population; as they became empty, cottages were pulled down; many small holdings being thrown into one, farms became gradually enlarged, and the owner is now enabled to obtain a high rent for land which, under the old system, was barely sufficient to maintain the occupiers. The effect of this change in the management of land is not less conspicuous in the improvement which it has produced in the comfort of the cultivators than in the addition which it has made to the revenues of the landlords. Formerly they lived in huts and cabins, similar both in extent and accommodation to the hovels which now shelter the Irish cottiers; their food, habits and manners, were as scanty, rude and savage, as those of the Irish peasantry. The alteration

¹ *Quarterly Review*, vol. 33, p. 462.

in the mode of letting land has brought about a complete revolution in their condition. The population of every parish where no manufactures have been introduced to keep it up, has been reduced in its numerical amount; where a crowd of paupers once vegetated in poverty, indolence and filth, a respectable number of industrious farmers now reside in comfortable and well-constructed houses, suitable to the circumstances and wants of affluent yeomen; and a considerable number of the cottiers who were formerly spread over the land and existed in listless and half-occupied indolence, have either emigrated to the colonies or into manufacturing towns, where they live in comfort and comparative abundance upon the earnings derived from constant employment (pp. 465-466).

In the United States (I refer especially to the North and West) we do not have the landlord system, and for special reasons we do not need it. The American farmer, though an owner-occupier, is no peasant: he is a business man who pursues agriculture "as a trade," not "as a direct means of subsisting" (Steuart); he is fully in the current of the world's intellectual movements, he is ready to change to other callings. For these reasons we may rely on his maintaining and even extending his standard of living as the force which will prevent agricultural retrogression. With his ambition we need to couple opportunity, which consists not in his land alone, but in improved and still improving means of transportation connecting his land with external markets. But what the future has in store in this matter is uncertain, especially in view of the great mass of peasant immigrants who are pouring into the country and establishing themselves upon the soil. In some parts of the country the old rural order seems to be changing, and giving place to something distinctly on a lower plane. Probably little can be done directly to correct any evil which may arise; but whatever innovations are made by legislation should be in the direction of favoring large estates.

In this connection it may be observed that the significance of the New England "abandoned farms" has been by most writers misconceived. It is really a situation to be proud of, as it shows fully that "the police" of the landlord in that region is not needed: it reveals agrarian self-government at work. In the mountain region of the South there are no large landlords and there are no "abandoned farms"; but there are a multitude of "poor whites," ignorant, corrupt, and politically inefficient, and (to use one of their own expressions) generally "no account." A different agrarian system (imposed from without, as the people cannot themselves develop it) would not change everything, but it would accomplish much.¹

The second application of the theory of the distribution of maintenance is to a subject growing out of the first; namely, the question of absenteeism. Suppose the system of land management and cultivation of a country creates a maximum amount of maintenance, but the proprietors of land who first receive it reside abroad: is the home country impoverished or in any way permanently injured thereby? M'Culloch in his evidence before a Parliamentary Committee on Ireland in 1825, and again in 1830, replied to this question in the negative. His argument, which has been accepted ever since by most economists following the English classic tradition, may be stated thus.

¹Part of the older literature bearing especially upon the topic under discussion is the following: Chalmers's *Political Economy*, the chapter on "Primogeniture," which met with M'Culloch's unqualified approval in his criticism of Chalmers's work in the *Edinburgh Review*, vol. 56. (Compare M'Culloch's edition of the *Wealth of Nations*, note xix., vol. iv.) Quesnay, *L'Encyclopédie*, articles "Grains" and "Fermiers"; *Explication du tableau économique*, p. 6; *Extrait des économies royales de M. Sully* (an appendix to the *Tableau*), pp. 1 and 4. Mirabeau, *Philosophie rurale*, pp. 47 and 284. Sir James Steuart, *Inquiry*, pp. 86-89. Gailth, *System of Political Economy*, New York edition, 1812, pp. 137-138 and 141-142. *Edinburgh Review*, vol. 45, No. 89, an article on the *Report of the Minutes of Evidence before the Select Committee of the House of Commons on Emigration from Great Britain and Ireland*. Robert Torrens, *Essay on the Production of Wealth*, pp. 139-142.

The landlord's agent in Ireland collects his rents in money, and with this money buys a bill of exchange which he remits to the landlord. Next the person who sells the bill buys with the proceeds Irish commodities which he ships abroad as "cover" for the bill. Finally, the absentee collects his bill, when due, of the acceptor, or gets it discounted in advance, and with the foreign money so obtained buys Irish commodities, or their equivalent,—he either actually buys the things shipped out of Ireland as "cover" for his bill or foreign products which those things pay for. In the end, therefore, the only difference made by his foreign residence is that he consumes, himself or by deputy, a certain amount of Irish commodities abroad rather than at home. In the one case the people of Ireland pay foreigners to keep their landlords, in the other case they keep them themselves: either way they must bear the expense of their keep. In either case, after the landlord's consumption is provided for, there remains "the same amount of commodities for the people of Ireland to subsist on." In either case the landlord's "income" "must be all laid out, in the first instance in Irish commodities." "To whatever extent Ireland may be benefited by the expenditure of a gentleman's revenue in it when he lives there, to precisely the same extent will it be benefited when he goes out of it."

Being pressed by the examiner as to whether it was "the same thing as regards the employment of labor," whether the gentry are absentees or not, M'Culloch replied:—

I think very nearly the same thing. . . . I think, as far as regards the purchase of all sorts of labor, except that of menial servants, absentee expenditure is never injurious to a country. . . . The only injury with reference to wealth from absentee expenditure is, that there may be a few menial servants thrown out of employment when the landlords leave the country, unless they take

their servants along with them. . . . In a country, however, where absenteeism has been so long prevalent as in Ireland, I should say that this circumstance cannot have any perceptible effect.

The argument set forth above is ambiguous. What is the landlord's "income" for the purposes of this discussion? Is it his money rents or the surplus produce of his estates the sale of which furnishes that money? Or is it the final "equivalents" received by him, the results of the labor of a disposable population at his command? Again, what are "commodities"? On some kinds of commodities people can "subsist," on others they cannot. Still again, what is "expenditure"? Is the mere transfer of money rents to one middleman in payment for a bill of exchange, and then its second transfer in purchase of "cover" for the bill, which may be simply the purchase of real rents (surplus produce) of another middleman, is this set of transactions the sort of thing which gives "employment" to labor?

The whole matter is cleared up when we deal with maintenance instead of with money rents, when we regard the landlord's final income (barring his own personal consumption of food) as consisting of "equivalents" which he obtains by disposing of maintenance, and when we take account of two very different sorts of commodities which may be shipped abroad as cover for the absentee's bill. The landlord's real and final income consists partly in personal services and partly in material products. As regards that part which consists of services, it must be received wherever he resides, as M'Culloch himself perceived to a slight extent. But we are not called upon merely to make some allowance for "menial servants." A wealthy man's physician and lawyer are not menial servants; but they must nevertheless follow the person of their client. So, too, with his tailor, his theatrical entertainer, and many others like them: they cannot live

in Dublin and minister to a man who resides in London or Paris. When a landlord leaves Ireland, of course the professional persons dependent on him may not expatriate themselves to follow him. They may remain behind, and eke out some sort of an existence. But in the end there will be fewer physicians and lawyers and tailors in Ireland, and more in the country of residence of the absentee. And this is not all. A landlord's lawyer and physician, his tailor and hair-dresser, hand on maintenance to others in the community who serve them. The final result, therefore, when many wealthy citizens of a country permanently reside abroad, is that that country is deprived of a considerable population, to its great social and political disadvantage.¹

This is what is likely to happen, what may be expected to happen, in most instances. Of course, it is conceivable that, when the landlords leave Ireland, their former servants, high and low, and those servants' servants, may all turn manufacturers, continue to subsist on the maintenance produced by Irish soil, and export some article in demand in foreign markets, which, being exchanged for a fresh stock of maintenance produced somewhere abroad, becomes available for the support of the landlord's new retinue of foreign servants. Whether or not this adjustment will take place in any given instance would depend on the suddenness of the change, the industrial circumstances of the home country, and the opportunities existing abroad to extend and improve cultivation so as to

¹In a primitive economic state where manufactures are not carried on with much fixed capital at a "seat," and the product disposed of through merchants to the general trade, and where in consequence all laborers virtually render a personal service, some very striking results follow the change of location of the great prime disposers. Thus Richard Jones tells us (*Literary Remains*, p. 139): "When Aurangzeb moved from Delhi on his summer excursion to Cashmere, the town was partially depopulated: four hundred thousand men waited on his progress. In the long and arduous struggle in the Deccan, which lasted twenty years, the expenditure of the Court was removed to the seat of war, and nearly two million of souls crowded round the overgrown camp."

provide increasing supplies of maintenance. At any time the existing maintenance of the world is all taken up by existing population. If therefore great disposers shift about, large masses of maintenance must be shifted about, and population will be encouraged in one place and discouraged in another.

But, even if it be fully admitted that absentee expenditure for personal services causes, as a rule, a loss of wealth and population to the home country, it may still be urged that absenteeism is of no consequence, so far as concerns expenditure for material products. Does it make any difference, it is asked, whether an Irish landlord imports a foreign-made piano and uses it in Ireland or whether he both buys it abroad and uses it abroad? No, of course not, so far as using goes, except for a rather fine point. A piano used in Ireland may afford some satisfaction, may elevate and delight some of the plain people of Ireland, even though they do not own it and play it themselves: they certainly can never receive any such benefit from a piano used abroad. It has been well said, in connection with the subject before us, "There are few enjoyments so personal and selfish as not to be diffused in some degree or other at the moment and place of consumption."¹

But the main point now at issue is not where the piano is used, but where it is bought and how it is paid for: we have changed the subject in debate from absenteeism to free-trade. "If free-trade be a good thing," said M'Culloch, "absenteeism cannot be a bad thing. And those who join the chorus in favor of the former had better, if they would have it supposed that they know anything of the matter, say as little as possible to the prejudice of the latter." Free-trade is a good principle, but a poor fetich. Under certain circumstances free-trade is not directly and in itself a good thing. Thus in Poland, in the

¹ Prinsep, note to chapter xx. of his translation of Say's *Treatise on Political Economy*.

century before the first dismemberment, the situation was such that nearly all the disposable maintenance of the country, beyond what was exchanged for personal service, was sent out of the country to purchase foreign luxuries for the nobles. The disposable population which Poland herself might have had she did not have; and this meant the absence of a middle class socially and politically, lack of support for the monarchy (at a time when such support was necessary for constitutional growth), and general weakness and backwardness. If the country had been able to persist in the experiments in protection which were once or twice tentatively begun and soon abandoned, much would doubtless have been gained in the way of "nation building," and little lost economically in the process. Little would have been lost as regards the wealth of the country, because maintenance was exported and luxuries imported.¹ If manufactures—"subsistence metamorphosed" (Franklin)—had been exported or if goods for the use of the masses of the people had been imported, the case would have been different.

And this leads to observing how mistaken are the protectionist measures in such countries as Hungary and Roumania at the present time. These countries export maintenance, to be sure; but they import foreign manufactures in forms of utility which improve the condition of the whole population. If they could keep their maintenance at home and support at home an effective manu-

¹ To curtail the Polish nobles' use of foreign luxuries would constitute no deduction from their wealth, because luxuries afford no real absolute utility: the satisfaction they yield is all relative. If it is made as costly for everybody to get five yards of inferior home-made lace as it was formerly to get ten yards of superior foreign-made lace, the five yards will yield each possessor the same social distinction as ten yards, and that (apart from some minor considerations of æsthetics) is all that is desired.

For an example of an elaborated, eighteenth-century theory of protection operating through prohibition of the export of subsistence rather than through direct restraint of the import of manufactures, see the translation of a work attributed to Necker, entitled *On the Legislation and Commerce of Corn*, London, 1776. See in particular chapters i.-xiii. and xxii.

facturing population, using power looms and the like, and furnishing their products cheaply, they would be better off than they are. But this is much the same thing as saying that, if they were richer and more advanced, they would be more advanced and richer. An agricultural country which exports maintenance to some industrial country in purchase of manufactures should look upon itself as the half of a whole economic community, just as the West and East of the United States are halves of one economic community, fortunately bound together in one political, free-trade area. In our West, with no artificial forcing, capital and industry are being gradually developed, certain first things coming first. In time it will be itself a whole community, in that it will have economic diversification to the full extent that its natural advantages make expedient, and will exchange "subsistence metamorphosed" with some other communities.

To sum up the original discussion. When a landlord or other wealthy citizen of a country absents himself from the place where his initial income is received (or when his daughter marries an impecunious foreigner), whether or not his home country is injured economically depends on what is exported as cover for the bills of exchange remitted to him. Whether he realizes his final income in personal services or in material commodities, if he draws domestic maintenance after him to pay for them, his own country will be directly impoverished and its population made less than it might otherwise be. Besides, as several writers have emphasized, there is political injury when leading citizens desert their country, and this in turn cannot fail to have indirectly untoward economic effects.¹

¹ The literature defending or attacking absenteeism is voluminous. The best on the subject with which I am acquainted is the article (already cited) in vol. 33 of the *Quarterly Review* (No. 66, Art. 8); Senior, *Three Lectures on the Rate of Wages* (1830), pp. 22-38, reprinted in the *Outline of the Science of Political Economy* (1836), pp. 193-196; and G. Poulett Scrope's *Principles of Political Economy* (1833), pp. 393-396. Said Scrope: "The case of Ireland differs

Having dealt with the subject of the emergence of maintenance and with the effect upon a community resulting from its distribution in some foreign country rather than at home, we now come to the question whether it makes a difference, as regards employment of labor and the numbers of the population, for what sort of "equivalent"—material or immaterial—it is laid out at home. This is not the old problem of productive and unproductive expenditure,—it is not a question of creating capital or not creating capital,—but simply a question as to the effect at any time of different forms of spending, in the ordinary sense of the word. Stating the problem in these terms, at the same time answers it. There is no problem when we deal with maintenance and its distribution. But there has been considerable fallacious reasoning when distribution of money revenue, not maintenance, is the immediate subject-matter in hand.

Thus Ricardo in his unfortunate chapter "On Machinery," added to the third edition of his *Principles*, asserted:—

If a landlord, or a capitalist, expends his revenue in the manner of an ancient baron, in the support of a great number of retainers,

from that of Britain in this remarkable point, that, while the latter exports solely manufactures, the exports of Ireland consist almost solely of *food*,—corn, butter, pork, beef, etc. . . . The English absentee landlord may be considered as feeding and employing with the surplus produce of his estate that portion of our manufacturing population which is engaged in fabricating the goods that are sent abroad to pay his rent. The Irish absentee, on the contrary, can only have *his* rent remitted in the shape of food: there is no secondary intervening process whatever; and the more food is in this way sent out of the country, the less, of course, remains behind to support and give employment to its inhabitants." In this Scrope may have been indebted to Chalmers, who has a similar passage in his *Political Economy*, chap. vi., sect. 15.

For M'Culloch's treatment of the subject see "Minutes of Evidence," *British Documents*, 1825 (129), vol. viii., and 1830 (665), vol. vii., Questions 6574–6640; an article on "Absenteeism" in the *Edinburgh Review* (1826), vol. 43, No. 85, which was reprinted with an introduction in *Treatises and Essays on Subjects connected with Economical Policy* (1853); and his *Principles of Political Economy*, 4th edition, p. 158. Taking a less uncompromising attitude and making use of different arguments, but on the whole occupying the same position as M'Culloch, is John Stuart Mill in *Essays on Some Unsettled Questions of Political Economy* (1844), pp. 41–43 and 60–66.

or menial servants, he will give employment to much more labor than if he expended it on fine clothes or costly furniture; on carriages, on horses, or the purchase of any other [material] luxuries. . . . If my revenues were 10,000*l.*, the same quantity nearly of productive labor would be employed, whether I realized it in fine clothes and costly furniture, &c., &c., or in a quantity of food and clothing of the same value. If, however, I realized my revenue in the first set of commodities, no more labor would be *consequently* employed:—I should enjoy my furniture and my clothes, and there would be an end of them; but if I realized my revenue in food and clothing, and my desire was to employ menial servants, all those whom I could so employ with my revenue of 10,000*l.*, or with the food and clothing which it would purchase, would be added to the former demand for laborers, and this addition would take place only because I chose this mode of expending my revenue.

The fallacy here arises from the fact that there is a double expenditure and realization, which is taken account of in the one case and not in the other. In the one case a man expends a revenue of 10,000*l.* and “realises” it in material luxuries; and those who receive his 10,000*l.*, since they cannot live on pounds sterling, expend it again, and realize it in food and other necessaries. In the other case, to make it parallel with the first, the wealthy possessor of revenue should expend it on menial servants, and realize it in the services they render; and these servants should expend it again, and realize it “in a quantity of food and clothing of the same value.” Ricardo prefers to state it a little differently; but the outcome is that in the second case he recognizes a second body of laborers—the makers of “food and clothing”—which he overlooked in the first case, and therefore supposes a net increase of labor and employment.

Proceeding from the passage above quoted Ricardo says:—

In the same manner, a country engaged in war, and which is under the necessity of maintaining large fleets and armies, employs

a great many more men than will be employed when the war terminates, and the annual expenses which it brings with it, cease.

If I were not called upon for a tax of 500*l.* during the war, which is expended on men in the situations of soldiers and sailors, I might probably expend that portion of my income on furniture, clothes, books, &c., &c., and whether it was expended in the one way or in the other, there would be the same quantity of labor employed in production; for the food and clothing of the soldier and sailor would require the same amount of industry to produce it as the more luxurious commodities; but in the case of the war, there would be the additional demand for men as soldiers and sailors; and, consequently, a war which is supported out of the revenue, and not from the capital of a country, is favorable to the increase of population.

At the termination of the war, when part of my revenue reverts to me, and is employed as before in the purchase of wine, furniture, or other luxuries, the population which it before supported, and which the war called into existence, will become redundant, and by its effect on the rest of the population, and its competition with it for employment, will sink the value of wages, and very materially deteriorate the condition of the laboring classes.

Thus did Ricardo help to encourage the popular delusion of the time, that the Napoleonic wars had been a blessing and the peace following Waterloo a curse. Upon this showing it would be for the interest of a nation once at war never to make peace.

The fallacy in this passage is similar to that in the first, —a quantity of maintenance and articles of second necessity, and those who produce it, is taken into account in one-half of the argument, and not in the other half. In time of peace the makers of material luxuries can live, it seems, on 500*l.* sterling; but, in time of war, soldiers and sailors (who are the same persons taken from their peace occupations to render certain services, often a sort of collective luxury) must have 500*l.* worth of "food and clothing." Therefore, the producers of food and clothing get counted in one case, and not in the other; and the

employment of soldiers and sailors occasioned by the war expenditure is represented to be "additional" to the aggregate peace employment.¹

What makes this position of Ricardo the more remarkable is that he himself had taken a correct view of the matter in his foregoing chapter "On Sudden Changes in the Channels of Trade." There we read:—

The commencement of war after a long peace, or of peace after a long war, generally produces considerable distress in trade. It changes in a great degree the nature of the employments to which the respective capitals [and bodies of laborers] of countries were before devoted; and during the interval while they are settling in the situations which new circumstances have made the most beneficial, much fixed capital is unemployed, perhaps wholly lost, and laborers are without full employment.

A similar problem handled in like fashion and involving like errors is found in Book I., Chapter V., of John Stuart Mill's *Political Economy*. I refer not to the doctrine itself, that "demand for commodities is not demand for labor," but to the long, involved argument about velvet-makers and bricklayers put forward in support of that doctrine.

In Mill's argument, besides the "makers of velvet" and the "journeymen bricklayers" there is a *tertium quid* called "capital." When any one diverts his "income," or a part of it (Ricardo's 10,000*l.*), from buying velvet to hiring bricklayers (not so suddenly but that the velvet manufacturer can get his capital out of the business), then the "income" will support the bricklayers, and the "capital" will continue to support the velvet-makers in some new occupation,—“most probably” in producing “the food and other things which the bricklayers consume,”—and so there are two bodies of laborers employed where

¹ The passages quoted in the text are adversely criticised by Senior, in a somewhat different fashion from my own criticism, in his *Three Lectures on the Rate of Wages*, pp. 54-62, reprinted in his *Outline*, pp. 200-201.

there was one before. There are now "two funds to be employed in the maintenance and remuneration of labor" and therefore "additional employment." Mill himself assumes that the discharged velvet-makers go adrift, and that it is a different body of laborers who "probably" produce food for bricklayers. It seems to me that this is an unnecessary complication of his reasoning, to be avoided by assuming, as I have done, that there is a mere transfer of the velvet-makers. The essential point is that, in the first line of argument, after all readjustments have been made, the bricklayers are an additional body of laborers in the community, corresponding to Ricardo's soldiers and sailors.

Contrariwise, according to Mill's second line of argument, if the bricklayers are subsequently set adrift and the "income" again devoted to purchasing velvet, the "capital" and labor required for the production of velvet is withdrawn from the business of raising food for bricklayers, with the result that there is a net diminution of employment. One would suppose that the displaced bricklayers might find employment raising food for agricultural laborers now turned artisan (who will need something besides "capital" to subsist on permanently, and who cannot now raise food for themselves), but they are precluded from this by lack of capital. A body of laborers can sometimes lack food and continue to flourish, but they can never get along without "capital."

If Mill's idea was that ordinary industrial operations (typified by velvet-making) cannot be carried on without accumulated wealth called "capital," but that trades of personal service (typified by bricklaying) can be carried on with little or no capital, then his whole emphasis should have been on the fact that there can be no sudden change from bricklaying to velvet-making. If the possessor of the income suddenly demands velvet in place of brick-

laying, he cannot get it. Time will be required to transfer the bricklayers to their new employment, and to furnish them with what is necessary for its prosecution. It does not help matters to steal capital, as it were, from agriculture. Whatever his idea may have been (it is not easy to tell), he should not have lost sight of the fact that at all times there is a second body of laborers and capitalists standing behind disposable laborers, however they may be employed, engaged in producing their maintenance.

In his abridged and annotated edition of Mill's *Principles*, Professor Laughlin has advanced a fresh argument in support of the original one just examined. His presentation is indeed far clearer, but not more convincing. I refer to the passage in which occurs the illustration of the shipwrecked crew.

Professor Laughlin makes the definite income which is diverted from its former recipients to the crew to consist expressly of commodities rather than money. He provides very simply for the (to him) apparently displaced laborers by having them go to work for the crew; and he takes pains to point out that, so far as concerns the question in hand, it makes no difference what the crew do for their master. All this is a great improvement upon Mill. But the same erroneous conclusion is the outcome, because it is held that, in directly employing the crew, the owner of the income "actually went through a process of saving by foregoing his personal consumption," whereas previously, when he bought commodities furnished by a capitalist employer, he "did not forego his consuming power."

It is overlooked that, in the one case as in the other, the owner of the income enjoys (consumes) the advantage of whatever his expenditure brings in to him, whether material goods or services, and that in both cases alike

the income parted with can feed and clothe (either directly or by exchange) only one total group of persons of a certain number, not two groups of that same number. The really displaced artisans, who received the "income" before the arrival of the crew, must now (they and their capitalist employer) either export their product or emigrate. Those who go to work for the crew under the new arrangement are simply those who formerly worked for the artisans. By means of the new disposition of the income, more labor as such is supported to the extent of the substitution of one paymaster in the community for two. The owner of the income is now his own employer. If he has given up anything, it is his peace of mind, taking that crew onto his hands.

The argument just passed in review reveals clearly the fundamental difficulty with which its author and his predecessors wrestled. From Adam Smith to the present time the English classical school has borne the heavy incubus of a half right, half wrong theory of capital. That has caused many attempts on many lines to support the unsupportable.

The next application of the theory before us is to the subject of a foreign source of maintenance. When the population of a country outgrows the food supply of the home territory, which comes about of course by reason of the law of diminishing returns in agriculture, the excess population must either emigrate or in some way manage to import maintenance from abroad.

The three leading ways, with modern nations, of getting the means of support for what Chalmers called an "ex-crescent population," are trade, the services of shipping, and foreign investment of capital. Chalmers was much opposed to a country getting into the situation of depend-

ence on a foreign food supply for a considerable portion of its people: the danger in time of war would be very great, the former proud independence of the country politically would be gone forever. But the only alternative is for a country to set bounds deliberately to progress, as the agrarian party and its professorial supporters are doing in Germany,—to say thus far, and no farther, will we go; and this can hardly be a permanent policy anywhere.¹

A country like England, which has (or had until recently) thought out this problem, will go on increasing in "ex-crescent population," and providing as far as possible against the hazards of war by building more and more ironclads just as long as she can do it. In time, increasing economic interdependence between the nations will lead to disarmament, to an improved international law, perhaps to something like a universal state. Declining isolation means the advance of all the arts of peace.

The main feature of the situation, however, is not so much guarding against interruption of the flow of foreign maintenance in time of war as assuring the continuation of its flow, and in ever-increasing volume, in time of peace. This leads to the subject of modern colonial enterprise, competition in international trade, and expansion in all its forms. Into the details of this broad subject I cannot enter here: the single topic with which I wish to deal is the foreign investment of capital, and that only in one of its aspects.

The foreign investment of capital is treated at length by Mr. J. A. Hobson in his recent work on *Imperialism*. In one part of his argument, in a chapter entitled "Economic Parasites of Imperialism," we read:—

It is not too much to say that the modern foreign policy of Great Britain is primarily a struggle for profitable markets of invest-

¹See T. Perronet Thompson's *Catechism on the Corn Laws*, London, 1827.

ment. To a larger extent every year Great Britain is becoming a nation living upon tribute from abroad; and the classes who enjoy this tribute have an ever-increasing incentive to employ the public policy, the public purse, and the public force to extend the field of their private investments, and to safeguard and improve their existing investments. This is, perhaps, the most important fact in modern politics; and the obscurity in which it is wrapped constitutes the gravest danger to our State. . . .

If, contemplating the enormous expenditure on armaments, the ruinous wars, the diplomatic audacity of knavery by which modern governments seek to extend their territorial power, we put the plain, practical question, *Cui bono?* the first and most obvious answer is, The investor.

The annual income Great Britain derives from commissions on her whole foreign and colonial trade, import and export, is estimated by Sir R. Giffen¹ at £18,000,000 for 1899, taken at 2½ per cent., upon a turnover of £800,000,000. This is the whole that we are entitled to regard as profits on external trade. Considerable as this sum is, it cannot serve to yield an economic motive-power adequate to explain the dominance which business considerations exercise over our imperial policy. Only when we set beside it some £90,000,000 or £100,000,000, representing pure profit upon investments, do we understand whence the economic impulse to Imperialism is derived.

My comment on this argument, in view of what has gone before, need not be a lengthy one. I am not called upon to defend imperialism, but simply the integrity of economic reasoning. On two conditions only could the matter stand as Mr. Hobson represents: first, in case the British investor brought home his interest and dividends entirely in the form of manufactured luxuries for his own personal use, which is contrary to fact; and, second, in case he imported them in the form of maintenance which he entirely consumed in his own person (and in the persons of his family), which is impossible. Of course, the people of England must render some form of service to the dividend receiver and dispenser, or to his deputy,

¹ *Journal of the Statistical Society*, vol. xlii. p. 9.

before they can obtain any of the maintenance which is thus diffused through the community. But can they obtain it without working for it anywhere on this planet? They might, indeed, obtain it as independent farmers directly from nature, if they cared to emigrate and had the capital to set up in farming. But, until they are able and willing to do that, they ought to thank their good fortune that they can obtain it by indirect means at home, because of the successful foreign investments of some of their countrymen.

Some one may here observe that upon this showing, if the owners of foreign investments should leave England, the country would be impoverished, which seems to be inconsistent with the position taken above,—that it would make no difference to a manufacturing country, like England, if all the landlords became absentees. The two cases are not at all parallel. The initial income of an English landlord originates in England, whereas that of an English foreign investor originates in some other country. If the latter should take up his residence abroad, thereafter England would receive benefit from his expenditure only so far as he sent the maintenance at his command to England to purchase manufactured articles there. That an Englishman residing abroad would use as many goods of English make (to say nothing of services) as he would if he remained in England is exceedingly improbable.

My final application is not to an economic condition nor to an erroneous argument, but simply to a difficulty in interpreting a phase of the history of economic theory.

Professor Taussig, in his article "The Wages-fund Doctrine at the Hands of German Economists,"¹ expresses

¹ *Quarterly Journal of Economics*, October, 1894; reprinted in part as chapter xiii., Part II., of his *Wages and Capital*.

himself as at a loss to understand how Hermann could have laid down the proposition that the source of wages is the income of consumers. This doctrine, which "has found its way into almost every German book on general economics," is found in both editions of Hermann's *Staats-wirtschaftliche Untersuchungen*, in a section of the chapter on wages entitled "Die Zahlungsfähigkeit des Begehrs." We are told that "the true and ever newly flowing spring of recompense of productive labor is the income of the buyer, who purchases the product for his own needs." Further, we read that it is unthinkable that wages depend on the amount of the disposable capital in relation to the number of laborers in a country, and that, moreover, the notion that the capital of the "Unternehmer" is the source ("Quelle") of wages is a dangerous error as being an encouragement to strikes.

In the course of his criticism of this doctrine of the dependence of wages upon consumers' income, and dealing only with its bearing on general wages,¹ Professor Taussig says:—

Laborers are themselves consumers, in many countries the largest and most important body of consumers. They buy commodities with their wages; and their demand, according to Hermann's reasoning, is an ultimate source of wages. Wages are thus an important source of wages,—reasoning which runs so obviously in a circle that we must be surprised to find it unnoticed by a mind so acute as Hermann's. If it be objected that there are consumers, like rent receivers or pensioners, who are not laborers, the situation is not bettered. Unless we suppose the laborers to produce only commodities bought by these separate consumers, and to buy among themselves no commodities made by other laborers, we still find that consumer's income includes in its constituent parts a larger or smaller element of wages, and that an undefined portion of the source of wages is simply wages.

¹In respect to particular wages Professor Taussig admits that Hermann's explanation is satisfactory; but, he truly says, "the wages fund doctrine is worth discussing, or replacing by something else, only as an attempt to discover the causes determining general wages."

As the brief passages in which Hermann advances his theory stand without support or explanation from other parts of his work, the field lies open for speculation as to its meaning and origin. The present writer ventures to advance the opinion that it is a survival of the teaching of the Physiocrats and their followers,—the doctrine of the distribution of the stream of maintenance. According to that doctrine the fact that wage-receiving laborers buy among themselves commodities made by other laborers is a subordinate and derivative phenomenon of so little importance that it is thrust into the background and practically ignored. The great demanders and consumers of society are precisely rent receivers and pensioners. Through their hands pass in repeated payments for goods and services the original fund which is the basis of all subsequent payments, and thus the source not only of all wages, but of all profits. The aggregate of these separate outlays, original and derivative, of portions of this fund or flow (until it is exhausted), constitutes the total demand of consumers. Capitalist employers, according to this doctrine, are merely in charge of accumulated masses of maintenance,—pools or eddies in the stream,—which they administer as agents of their customers. Upon what terms they share with their hired laborers the proceeds of the sale of the joint product of their industry—as to what determines the amount of wages as distinguished from the ultimate source of wages, which last is merely “pushed out of sight by the interference and advances of the capitalist” (Jones)—is not stated. The earlier theory of distribution, as was declared at the outset, is not concerned with the problems of the modern theory of distribution.

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